



VILLAGE OF LUTHER  
Lake County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended February 28, 2005

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Village of Luther	<b>County</b> Lake
<b>Audit Date</b> February 28, 2005	<b>Opinion Date</b> April 26, 2005	<b>Date Accountant Report Submitted to State:</b> July 14, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

VILLAGE OF LUTHER  
Lake County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	4
Government-wide Statement of Activities	5
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Notes to Financial Statements	10-15
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	16
Budgetary Comparison Schedule – Major Street Fund	17
Budgetary Comparison Schedule – Local Street Fund	18
Other Supporting Information:	
General Fund Expenditures by Detailed Account	19
Combining Balance Sheet – All Special Revenue Funds	20
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – All Special Revenue Funds	21

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## INDEPENDENT AUDITOR'S REPORT

April 26, 2005

To the Village Council  
Village of Luther  
Lake County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Luther, Lake County, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Morley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Village of Luther, Lake County, Michigan as of February 28, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note-1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of March 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

VILLAGE OF LUTHER  
Lake County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended February 28, 2005

The Management's Discussion and Analysis report of the Village of Luther covers the Village's financial performance during the year ended February 28, 2005.

FINANCIAL HIGHLIGHTS

Our financial status has improved over the last year. Net assets at February 28, 2005, totaled \$396,779.57 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$204,755.63 from governmental activities. Governmental activities had a \$17,389.61 increase in net assets with major road improvements of \$48,116.87 and a loss of 5.7% (\$2,142.00) in revenue sharing.

Taxable value increased by approximately \$90,498.00 or 2.95%.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

VILLAGE OF LUTHER  
Lake County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended February 28, 2005

ENTITY-WIDE FINANCIAL STATEMENTS (continued)

All of the activities of the Village are reported as governmental activities. These include the General Fund, the Major Street Fund, and the Local Street Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

Governmental Funds: All of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include the General Fund, the Major Street Fund and the Local Street Fund.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund pays for most of the Village's governmental services. The Major Street Fund incurred expenses of \$66,544.99. The Local Street incurred expenses of \$31,095.21 in operating expenses.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities invested \$6,888.89 in capital assets.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents 25% of our income. We continue to grow with demand for good roads.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Village Clerk or the Village Treasurer at 231-797-5452.

VILLAGE OF LUTHER  
Lake County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
February 28, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	242 101 83
Taxes receivable	5 392 63
Due from State of Michigan	<u>24 189 75</u>
Total Current Assets	<u>271 684 21</u>
NON-CURRENT ASSETS:	
Capital Assets	165 376 87
Less: Accumulated Depreciation	<u>(40 281 51)</u>
Net Capital assets	<u>125 095 36</u>
TOTAL ASSETS	<u><u>396 779 57</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	125 095 36
Unrestricted	<u>271 684 21</u>
Total Net Assets	<u>396 779 57</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>396 779 57</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LUTHER  
Lake County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended February 28, 2005

		<u>Program Revenue</u>	<u>Governmental Activities</u>
			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	4 723 87	-	(4 723 87)
General government	24 538 55	-	(24 538 55)
Public works	132 452 13	59 845 76	(72 606 37)
Recreation and culture	8 318 63	-	(8 318 63)
Other	17 332 84	-	(17 332 84)
Total Governmental Activities	<u>187 366 02</u>	<u>59 845 76</u>	<u>(127 520 26)</u>
General Revenues:			
Property taxes			31 784 28
State revenue sharing			109 869 92
Interest			2 124 84
Miscellaneous			<u>1 130 83</u>
Total General Revenues			<u>144 909 87</u>
Change in net assets			17 389 61
Net assets, beginning of year			<u>379 389 96</u>
Net Assets, End of Year			<u>396 779 57</u>

The accompanying notes are an integral part of these financial statements.



VILLAGE OF LUTHER  
Lake County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
February 28, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	173 145 79	38 166 57	30 789 47	242 101 83
Taxes receivable	5 392 63	-	-	5 392 63
Due from State of Michigan	<u>6 391 00</u>	<u>13 818 85</u>	<u>3 979 90</u>	<u>24 189 75</u>
Total Assets	<u>184 929 42</u>	<u>51 985 42</u>	<u>34 769 37</u>	<u>271 684 21</u>
<u>Liabilities and Fund Balances</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unreserved:				
Undesignated	<u>184 929 42</u>	<u>51 985 42</u>	<u>34 769 37</u>	<u>271 684 21</u>
Total fund balances	<u>184 929 42</u>	<u>51 985 42</u>	<u>34 769 37</u>	<u>271 684 21</u>
Total Liabilities and Fund Balances	<u>184 929 42</u>	<u>51 985 42</u>	<u>34 769 37</u>	<u>271 684 21</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LUTHER  
Lake County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
February 28, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	271 684 21
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	165 376 87
Accumulated depreciation	<u>(40 281 51)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>396 779 57</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LUTHER  
Lake County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended February 28, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:				
Property taxes	31 784 28	-	-	31 784 28
State revenue sharing	38 190 58	48 425 81	23 253 53	109 869 92
Charges for services	59 845 76	-	-	59 845 76
Interest	1 430 45	460 13	234 26	2 124 84
Miscellaneous	1 130 83	-	-	1 130 83
Total revenues	<u>132 381 90</u>	<u>48 885 94</u>	<u>23 487 79</u>	<u>204 755 63</u>
Expenditures:				
Legislative:				
Village Council	4 723 87	-	-	4 723 87
General government:				
Village President	3 012 00	-	-	3 012 00
Elections	666 49	-	-	666 49
Legal	1 875 00	-	-	1 875 00
Clerk	6 821 02	-	-	6 821 02
Treasurer	6 432 57	-	-	6 432 57
Building and grounds	5 731 47	-	-	5 731 47
Public works:				
Department of Public Works	17 782 79	-	-	17 782 79
Highways and streets	-	66 544 99	31 095 21	97 640 20
Street lighting	10 102 97	-	-	10 102 97
Recreation and culture:				
Parks and recreation	8 178 63	-	-	8 178 63
Other functions:				
Employee benefits	4 562 01	-	-	4 562 01
Insurance	10 569 00	-	-	10 569 00
Community promotion	1 401 83	-	-	1 401 83
Miscellaneous	800 00	-	-	800 00
Capital outlay	6 888 89	-	-	6 888 89
Total expenditures	<u>89 548 54</u>	<u>66 544 99</u>	<u>31 095 21</u>	<u>187 188 74</u>
Excess (deficiency) of revenues over expenditures	<u>42 833 36</u>	<u>(17 659 05)</u>	<u>(7 607 42)</u>	<u>17 566 89</u>
Other financing sources (uses):				
Operating transfers in	-	-	6 462 93	6 462 93
Operating transfers out	-	(6 462 93)	-	(6 462 93)
Total other financing sources (uses)	<u>-</u>	<u>(6 462 93)</u>	<u>6 462 93</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	42 833 36	(24 121 98)	(1 144 49)	17 566 89
Fund balances, March 1	<u>142 096 06</u>	<u>76 107 40</u>	<u>35 913 86</u>	<u>254 117 32</u>
Fund Balances, February 28	<u><u>184 929 42</u></u>	<u><u>51 985 42</u></u>	<u><u>34 769 37</u></u>	<u><u>271 684 21</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LUTHER  
Lake County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year ended February 28, 2005

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	17 566 89
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation Expense	(7 066 17)
Capital Outlay	<u>6 888 89</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>17 389 61</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LUTHER  
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Luther, Lake County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Luther. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Joint Venture

During 1983-84, the Village entered into a joint venture agreement with Newkirk Township to build, equip and operate a municipal hall. The project was completed in January of 1985. The building is governed by its own board with representatives of both the Village and the Township serving. The agreement states that all expenses of construction and operation are to be shared equally.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Village's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

VILLAGE OF LUTHER  
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on September 14 with the final collection date of March 1 before they are added to the county delinquent tax rolls. The Village 2004 tax roll millage rate was 10.00 mills, and the taxable value was \$3,146,962.00.

VILLAGE OF LUTHER  
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$2,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	25-75 years
Vehicles and equipment	12-25 years

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective March 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Village's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$125,095.36.

VILLAGE OF LUTHER  
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2005

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated three banks for the deposit of Village funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>242,101.83</u>



VILLAGE OF LUTHER  
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2005

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	190 369 46
Uninsured and Uncollateralized	<u>44 678 89</u>
Total Deposits	<u><u>235 048 35</u></u>

The Village of Luther did not have any investments as of February 28, 2005.

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental activities for the current year was as follows:

	<u>Balance 3/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2/28/05</u>
<u>Governmental Activities:</u>				
Buildings	56 800 00	-	-	56 800 00
Vehicles and equipment	<u>101 687 98</u>	<u>6 888 89</u>	<u>-</u>	<u>108 576 87</u>
Total	158 487 98	6 888 89	-	165 376 87
Accumulated Depreciation	<u>(33 215 34)</u>	<u>(7 066 17)</u>	<u>-</u>	<u>(40 281 51)</u>
Net Governmental Capital Assets	<u><u>125 272 64</u></u>	<u><u>(177 28)</u></u>	<u><u>-</u></u>	<u><u>125 095 36</u></u>

Note 5 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 6 – Pension Plan

The Village does not have a pension plan.

Note 7 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Village of Luther does not issue building permits. Building permits are issued by the County of Lake.

VILLAGE OF LUTHER  
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2005

Note 9 – Transfers In and Transfers Out

For the fiscal year ended February 28, 2005, the Village made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Local Street	<u>6 462 93</u>	Major Street	<u>6 462 93</u>
Total	<u>6 462 93</u>	Total	<u>6 462 93</u>

VILLAGE OF LUTHER  
Lake County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended February 28, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	25 000 00	25 000 00	31 784 28	6 784 28
State revenue sharing	32 000 00	32 000 00	38 190 58	6 190 58
Charges for services	20 250 00	20 250 00	59 845 76	39 595 76
Interest	800 00	800 00	1 430 45	630 45
Miscellaneous	<u>104 00</u>	<u>104 00</u>	<u>1 130 83</u>	<u>1 026 83</u>
Total revenues	<u>78 154 00</u>	<u>78 154 00</u>	<u>132 381 90</u>	<u>54 227 90</u>
Expenditures:				
Legislative:				
Village Council	6 900 00	6 900 00	4 723 87	(2 176 13)
General government:				
Village President	3 165 00	3 165 00	3 012 00	(153 00)
Elections	750 00	850 00	666 49	(183 51)
Legal	2 000 00	2 000 00	1 875 00	(125 00)
Clerk	8 075 00	7 975 00	6 821 02	(1 153 98)
Treasurer	8 075 00	8 075 00	6 432 57	(1 642 43)
Building and grounds	4 575 00	5 810 00	5 731 47	(78 53)
Public works:				
Department of Public Works	18 600 00	20 200 00	17 782 79	(2 417 21)
Street lighting	10 000 00	10 110 00	10 102 97	(7 03)
Recreation and culture:				
Parks and recreation	42 500 00	40 885 00	8 178 63	(32 706 37)
Other functions:				
Employee benefits	4 350 00	4 620 00	4 562 01	(57 99)
Insurance	10 000 00	10 600 00	10 569 00	(31 00)
Community promotions	2 000 00	2 000 00	1 401 83	(598 17)
Miscellaneous	-	800 00	800 00	-
Capital outlay	<u>10 000 00</u>	<u>7 000 00</u>	<u>6 888 89</u>	<u>(111 11)</u>
Total expenditures	<u>130 990 00</u>	<u>130 990 00</u>	<u>89 548 54</u>	<u>(41 441 46)</u>
Excess (deficiency) of revenues over expenditures	(52 836 00)	(52 836 00)	42 833 36	95 669 36
Fund balance, March 1	<u>52 836 00</u>	<u>52 836 00</u>	<u>142 096 06</u>	<u>89 260 06</u>
Fund Balance, February 28	<u>-</u>	<u>-</u>	<u>184 929 42</u>	<u>184 929 42</u>

VILLAGE OF LUTHER  
Lake County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND  
Year ended February 28, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	34 700 00	34 700 00	48 425 81	13 725 81
Interest	<u>1 000 00</u>	<u>1 000 00</u>	<u>460 13</u>	<u>(539 87)</u>
Total revenues	<u>35 700 00</u>	<u>35 700 00</u>	<u>48 885 94</u>	<u>13 185 94</u>
Expenditures:				
Public works:				
Highways and streets	<u>98 026 00</u>	<u>98 026 00</u>	<u>66 544 99</u>	<u>(31 481 01)</u>
Total expenditures	<u>98 026 00</u>	<u>98 026 00</u>	<u>66 544 99</u>	<u>(31 481 01)</u>
Excess (deficiency) of revenues over expenditures	<u>(62 326 00)</u>	<u>(62 326 00)</u>	<u>(17 659 05)</u>	<u>44 666 95</u>
Other financing sources (uses):				
Operating transfers out	<u>(10 000 00)</u>	<u>(10 000 00)</u>	<u>(6 462 93)</u>	<u>3 537 07</u>
Total other financing sources (uses)	<u>(10 000 00)</u>	<u>(10 000 00)</u>	<u>(6 462 93)</u>	<u>3 537 07</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(72 326 00)</u>	<u>(72 326 00)</u>	<u>(24 121 98)</u>	<u>48 204 02</u>
Fund balance, March 1	<u>72 326 00</u>	<u>72 326 00</u>	<u>76 107 40</u>	<u>3 781 40</u>
Fund Balance, February 28	<u>-</u>	<u>-</u>	<u>51 985 42</u>	<u>51 985 42</u>

VILLAGE OF LUTHER  
Lake County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND  
Year ended February 28, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	18 720 00	18 720 00	23 253 53	4 533 53
Interest	<u>150 00</u>	<u>150 00</u>	<u>234 26</u>	<u>84 26</u>
Total revenues	<u>18 870 00</u>	<u>18 870 00</u>	<u>23 487 79</u>	<u>4 617 79</u>
Expenditures:				
Public works:				
Highways and streets	<u>72 176 00</u>	<u>72 176 00</u>	<u>31 095 21</u>	<u>(41 080 79)</u>
Total expenditures	<u>72 176 00</u>	<u>72 176 00</u>	<u>31 095 21</u>	<u>(41 080 79)</u>
Excess (deficiency) of revenues over expenditures	<u>(53 306 00)</u>	<u>(53 306 00)</u>	<u>(7 607 42)</u>	<u>45 698 58</u>
Other financing sources (uses):				
Operating transfers in	<u>-</u>	<u>-</u>	<u>6 462 93</u>	<u>6 462 93</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>6 462 93</u>	<u>6 462 93</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(53 306 00)</u>	<u>(53 306 00)</u>	<u>(1 144 49)</u>	<u>52 161 51</u>
Fund balance, March 1	<u>53 306 00</u>	<u>53 306 00</u>	<u>35 913 86</u>	<u>(17 392 14)</u>
Fund Balance, February 28	<u>-</u>	<u>-</u>	<u>34 769 37</u>	<u>34 769 37</u>

VILLAGE OF LUTHER  
Lake County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended February 28, 2005

Village Council:	
Salaries and wages	4 045 00
Dues	477 00
Printing and publishing	50 87
Miscellaneous	151 00
	<u>4 723 87</u>
Village President:	
Salary	3 000 00
Office supplies	12 00
	<u>3 012 00</u>
Elections:	
Wages	448 00
Office supplies	218 49
	<u>666 49</u>
Legal	<u>1 875 00</u>
Clerk:	
Salary	6 000 00
Office supplies	753 52
Transportation	67 50
	<u>6 821 02</u>
Treasurer:	
Salary	6 240 00
Office supplies	192 57
	<u>6 432 57</u>
Building and grounds:	
Aid to other governments	2 255 15
Utilities	2 061 85
Telephone	319 60
Maintenance	1 094 87
	<u>5 731 47</u>
Department of Public Works:	
Wages	10 646 25
Supplies	1 847 07
Gas and oil	2 851 24
Repairs and maintenance	2 438 23
	<u>17 782 79</u>
Street lighting:	
Utilities	<u>10 102 97</u>
Parks and recreation:	
Contracted services	6 356 26
Recreation	1 822 37
	<u>8 178 63</u>
Other functions:	
Employee benefits	4 562 01
Insurance	10 569 00
Community promotion	1 401 83
Miscellaneous	800 00
	<u>17 332 84</u>
Capital outlay	<u>6 888 89</u>
Total Expenditures	<u>89 548 54</u>

VILLAGE OF LUTHER  
Lake County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS  
February 28, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	38 166 57	30 789 47	68 956 04
Due from State of Michigan	<u>13 818 85</u>	<u>3 979 90</u>	<u>17 798 75</u>
Total Assets	<u>51 985 42</u>	<u>34 769 37</u>	<u>86 754 79</u>
<u>Liabilities and Fund Balances</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved:			
Undesignated	<u>51 985 42</u>	<u>34 769 37</u>	<u>86 754 79</u>
Total Liabilities and Fund Balances	<u>51 985 42</u>	<u>34 769 37</u>	<u>86 754 79</u>

VILLAGE OF LUTHER  
Lake County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS

Year ended February 28, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:			
State revenue sharing	48 425 81	23 253 53	71 679 34
Interest	<u>460 13</u>	<u>234 26</u>	<u>694 39</u>
Total revenues	<u>48 885 94</u>	<u>23 487 79</u>	<u>72 373 73</u>
Expenditures:			
Public works:			
Highways and streets:			
Administration:			
Wages	1 274 00	1 176 00	2 450 00
Supplies	45 00	-	45 00
Routine maintenance:			
Wages	5 766 50	2 123 25	7 889 75
Equipment rental	13 784 64	6 655 12	20 439 76
Supplies	202 31	202 80	405 11
Contracted services	10 407 00	8 146 75	18 553 75
Winter maintenance:			
Wages	5 400 25	2 012 25	7 412 50
Equipment rental	27 412 92	10 708 44	38 121 36
Traffic services:			
Contracted services	801 05	70 60	871 65
Roadside parks:			
Wages	489 25	-	489 25
Equipment rental	<u>962 07</u>	<u>-</u>	<u>962 07</u>
Total expenditures	<u>66 544 99</u>	<u>31 095 21</u>	<u>97 640 20</u>
Excess (deficiency) of revenues over expenditures	<u>(17 659 05)</u>	<u>(7 607 42)</u>	<u>(25 266 47)</u>
Other financing sources (uses):			
Operating transfers in	-	6 462 93	6 462 93
Operating transfers out	<u>(6 462 93)</u>	<u>-</u>	<u>(6 462 93)</u>
Total other financing sources (uses)	<u>(6 462 93)</u>	<u>6 462 93</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(24 121 98)	(1 144 49)	(25 266 47)
Fund balances, March 1	<u>76 107 40</u>	<u>35 913 86</u>	<u>112 021 26</u>
Fund Balances, February 28	<u><u>51 985 42</u></u>	<u><u>34 769 37</u></u>	<u><u>86 754 79</u></u>



# **CAMPBELL, KUSTERER & CO., P.C.**

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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

April 26, 2005

To the Village Council  
Village of Luther  
Lake County, Michigan

We have audited the financial statements of the Village of Luther for the year ended February 28, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Village of Luther in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council  
Village of Luther  
Lake County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended February 28, 2005. The implementation of this pronouncement for the Village of Luther began with the year ended February 28, 2005. The daily operations and recording transactions did not change significantly, however, the Village is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated February 28, 2005.

To the Village Council  
Village of Luther  
Lake County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants